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I, Emmeline Rocha-Sinha, wish to make the following changes, for the following reasons:

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EMMELINE ROCHA-SINHA

Subscribed and sworn to before me

this day of 2003.

Notary Public

Russell Dep.

In The Matter Of:

AHERF v.
PRICEWATERHOUSECOOPERS, L.L.P.

RANDALL RUSSELL, Ph.D.
September 29, 2003

LEGALINK MANHATTAN
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RUSSELL, Ph.D., RANDALL

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Q. That's correct?
A. That's correct.
Q. A while back you mentioned that you didn't recall till I guess the very end of the enterprise here seeing anything alarming that made you feel like the sky was falling at AHERF. Do you remember generally discussing that topic?
A. Yes.
MR. FRIESEN: Objection.
Q. Did you at some point obtain a sense that indeed the sky was falling as you used that term at AHERF?
A. I would say that the meeting that I referred to in which it became clear that these assets had been be moved and transferred, that at that point in time it came out that the -- at least from my perspective, it came out that the Mellon Bank loan had been called, yes, at that point in time there was -- it was clear to me that there was, you know, I can't say the sky is falling, but there is obviously a severe -- some severe issues that needed to be dealt with.
Q. And this meeting occurred subsequent to, your

understanding, of the payment of the Mellon loan?
MR. FRIESEN: Objection.
A. Yes, I believe that's correct.
Q. Are you aware that the Mellon repayment took place in the third week of April 1998?
MR. McCLENAHAN: I'll object to that. I think that was actually -- I'll object to the form of the question. I don't think that you are right.
A. I don't know the exact date.
Q. On or about April 26th or 7th, 1998?
MR. FRIESEN: Objection, he already says he doesn't remember.
Q. Does that help refresh your memory, the specific dates?
A. I don't remember the date honestly.
Q. But in any event, the meeting you are telling me about happened after the payment, whenever that happened?
A. That was my recollection.
Q. You talked a little bit this morning about the 10/30/1997 finance committee meeting that you attended. Do you recall discussing that with Mr. Friesen?

A. Yes.
Q. And I think you mentioned earlier today that at that meeting management made some representations about plans that they had in place to try to address some of the system's financial problems. Do you remember that?
A. Yes.
Q. At that meeting, at this 10/30/97 meeting, did you have any sense that the AHERF system was in -- well, to use your terms, the sky was falling --
A. No.
Q. -- with the AHERF system?
A. No, I didn't at that point.
Q. Do you remember any discussions at the AHERF finance committee meetings that you attended regarding the system's decision to switch to a consolidated audit format for the presentation of its financial statements?
A. I read that this morning. Do I remember that before that, no, I don't.
Q. So you have no independent recollection of that discussion?
A. No, I don't.
Q. Do you recall during the October 1997 finance

committee meeting that we have discussed today ever doubting or having serious doubts about management's representations regarding the plans they had to address the system's financial problems?
A. I think that I would -- that I was concerned about the losses and amounting losses, and at that point I would say that I think we felt -- I felt it was more environmental than it was management-related at that point; environmental meaning the reasons we were given for the problems were, you know, Medicaid reductions in payments and a number of different changes in reimbursement and so forth, which were -- which was the environment of the medical community at that point in time, as opposed to saying that I thought the management at that point were totally derelict in their responsibilities or anything of that nature.
Q. In response to Mr. Friesen's, one of his prior questions, I think he asked you if you had confidence that management could improve the situation, and I think you responded that yes, or you would have strenuously objected or perhaps resigned from the board. Do you

remember discussing that?
A. Mm-hmm.
Q. Is that a yes?
A. Yes.
Q. Any other options that you would have in your mind as a finance committee member if you did have serious doubts about management's competence to lead the enterprise through its financial problems?
MR. FRIESEN: Objection, calls for speculation.
A. Yeah, I -- at that point no, I don't think so.
Q. At that point you are referring back to October of '97?
A. Right.
Q. Did you ever attend any board meetings at AHERF -- I'm sorry, any committee meetings at AHERF at which a decision to file bankruptcy was discussed?
A. No.
Q. And you had no discussions personally with any of AHERF's lenders regarding alternative financing?
A. No.
Q. Towards the end of your discussion with

Mr. Friesen, you were asked a series of questions about the format and content and size of board meetings and committee meetings. Do you remember that testimony?
A. Yes.
Q. At any point during your service at AHERF, did you ever feel like you weren't prepared to fulfill your fiduciary duties to the system or its subsidiary boards?
A. No.
Q. You have an understanding, I assume, that Coopers & Lybrand was, in fact, the system's external auditors during the time you were a committee member at AHERF; right?
A. Yes.
Q. What is your understanding or what was your understanding, if any, of Coopers' role as external auditor?
A. I assumed their role as the external auditor would be no different than being the external auditor of any company, that is they would provide an overview of the finance function, the operating function of the system; and they would assure the board that the financial reporting was in accordance with proper

standards, accounting standards; and that they would in essence wind up giving us a management letter, if you like, and also a audited, hopefully an unqualified statement; that they would look at fraud issues or some other issues perhaps that were evident.
But all that being said, you know, my knowledge of accounting and my knowledge of auditing is certainly not what I do for a living, but I know in my own companies even that they rely heavily on the management of the company to report things accurately, and I don't think they are there as watchdogs to find fraud and they might stumble on it if -- I won't say lucky, but you have -- you have them there for a different purpose I think than that.
MR. FRIESEN: I'm sorry, just so the transcript is clear, did you say not watchdogs?
MR. UNICE: I believe he testified they were -- you can go ahead and answer that one.
Q. I think you testified that one role of the auditor was as a watchdog to suspect fraud from management.

A. Right, if they saw fraud or any other unusual practice that would lead them to have any concern, that they would bring to the board or bring to the outside directors.
Q. In your board experience outside of AHERF, has there ever been an occasion when entities' outside auditors did, in fact, bring to your attention suspected fraud on the part of management?
A. No.
Q. Did that -- while at AHERF, did the external auditors ever bring to your attention any concerns they had with expected fraud -- I'm sorry, suspected fraud on the part of management?
A. No.
MR. FRIESEN: Objection. He had no contact with them.
A. Yeah, well, the answer's no, but not --
Q. I'm sorry?
A. I said the answer's no.
Q. Would you expect if the auditors of AHERF did, in fact, find fraud on the part of financial management in the presentation of financial information that was given to them, that the

auditors would bring that to the board's attention?
MR. FRIESEN: Objection. He's not on the board.
Q. Go ahead.
A. Yes, I would expect them to.
Q. You also mentioned that one of the roles of an auditor in your understanding was to provide or to present unqualified opinions?
MR. McCLENAHAN: I'm not sure that's exactly what he said.
MR. FRIESEN: Objection.
A. I said one would -- one would hope for an unqualified opinion.
Q. That was poorly phrased. One of the roles of an external auditor is to provide an opinion on the financial statements of the enterprise, and I think one type of those opinions that you mentioned is an unqualified opinion; is that right?
A. Yes, yes, right.
Q. Thanks for the clarification. What is your understanding of an unqualified opinion as you used that term?
A. My understanding would be that the financial

reporting systems and the information that you see presented in a financial -- in a report or an annual report or year-end report, whatever is being audited, would comply with, you know, generally accounting standards, which -- which, you know, I'm not an auditor, I'm not a finance person, so I don't know if they have different ones for medical systems versus corporations versus whatever.
But there are -- there are, to my understanding, standards that have to be met, generally accepted principles, and that's what they are there to do is to see that that's accomplished, to state that.
Q. Now, if Coopers & Lybrand did arrive at the conclusion that the financial information presented to them by AHERF management was presented in violation of generally accepted accounting principles, would you expect that to be something that the auditors would bring to the board's or audit committee's attention?
MR. FRIESEN: Objection.
A. In a general sense, yes.
Q. If Coopers & Lybrand had discovered that information presented by management was

intentionally misstated by management, would that be a fact that you would expect the auditors to bring to the board or audit committee's attention?
A. Yes, I would.
MR. FRIESEN: Objection.
Q. If the auditors, in fact, had concerns about the integrity or competence of financial management at AHERF, would those issues be some which you expect the auditors to bring to the board or the audit committee's attention?
MR. FRIESEN: Objection.
A. Yes.
Q. If the auditors had come to you personally during your tenure at AHERF, during your service of tenure at AHERF, with any of those revelations, would that have impacted your view on the success of management's implementation of its business strategy that you discussed earlier with Mr. Friesen?
MR. FRIESEN: Objection.
MR. McCLENAHAN: Yeah, I'm going to object to the form of the question. I don't know what you mean by of any of, quote, those revelations.

MR. UNICE: The ones that you and I just discussed, and I can break it down by question if you prefer. I'll do that for you, David.
BY MR. UNICE:
Q. If financial management had come to -- I'm sorry, if the external auditors had come to you with questions they had concerning the competence or integrity of financial management, would that have raised questions in your mind as to the success or wiseness of AHERF management's implementation of its business strategy?
A. Yes.
MR. FRIESEN: Objection.
Q. Would your response be the same if the auditors had come to you with the concern that the financial information presented to them had been materially misstated?
MR. FRIESEN: Objection.
A. Yes.
Q. Would your response be the same if the auditors had come to you with information that they believed showed that the financial information presented to them was prepared in violation of

generally accepted accounting principles?
MR. FRIESEN: Objection.
A. Yes.
Q. And would your response be the same if the auditors had come to you with a belief that the information presented to them by AHERF management was procured by -- was created by fraud?
MR. FRIESEN: Objection.
A. Yes.
Q. Now, if any of those revelations that you and I just discussed had been made to you, can you explain to me what options you would have had as a member of a subsidiary board or the finance committee of AHERF to respond to such concerns?
MR. FRIESEN: Objection, calls for speculation.
MR. McCLENAHAN: You can answer if you are able to.
A. Well, I -- I don't know what I would do in that situation. I wasn't confronted with that.
Q. Okay. Would one option though be the perhaps retention of outside consultants to further examine the issue?

MR. FRIESEN: Objection.
Q. Would that be one of the options available to you whether or not you knew, in fact, you would have done that?
MR. FRIESEN: Objection.
A. I think that would be premature at that point.
Q. Why is that?
A. As a member of the board -- of a subboard, which I was --
Q. Yes.
A. -- the first thing I would do is go to the chairman of the board and the chairman of the audit committee and say I have been approached with this information and what would you -- what is the situation, what is going on.
And, quite frankly, I'm serving in a committee that doesn't have authority to respond in that area other than, you know, as a trustee, my fiduciary responsibility to go to those people. So, yes, if I were on those committees and you asked me is that an alternative, yeah, it might be.
Q. So any of the -- I'm sorry, go ahead, sir.
A. Your last question, would it be appropriate to get outside -- somebody else to come in and

look, and the answer would be if I were on those committees, my judgment, depending on the circumstances, that might be an option, yes.
Q. So in the position you were actually in at AHERF, you would have made further inquiry to either the board or the audit committee?
A. Yes, I would have, yes, under those circumstances.
Q. Do you recall that in the end of the summer of 1998 AHERF elected to not retain PriceWaterhouseCoopers for its fiscal year 1998 audit?
A. Yes.
Q. Tell me what you recall about that decision.
A. I -- I recall that that occurred. I can't recall the specifics of the meeting to be honest with you.
Q. I've just handed you what's already been marked in this litigation as Exhibit 2105. They appear to be minutes of the 8/27/1998 finance and audit committee. They are in draft form and are not signed.
This document bears the Bates numbers CL 150833 through 38. Take a moment to review this document, and let me know if you have ever

seen it before today.
\- - - -
(The witness reviewed the Exhibit.)
\- - - -
MR. McCLENAHAN: Do you want the witness to tell you whether he has seen this document before? Is that your question?
MR. UNICE: That's my preliminary question, yeah.
A. I don't recall seeing this document.
Q. Do you note on the first page under members present, the last one appears to be your name?
A. Yes.
Q. Do you know whether or not you attended this meeting --
A. I would -- I would suspect I was there, yes.
Q. So you have no reason to believe you didn't attend?
A. I have no reason to believe I didn't attend.
Q. Have you had a chance to review the document?
A. I'm still reading. There's a lot of stuff here.
MR. McCLENAHAN: Well, is there something you want to call his attention to?
Q. Yes, let me do it this way. Based on what

you've reviewed so far in the document, does this refresh your memory at all about any discussions at the finance and audit committee meeting regarding the decision to not retain PriceWaterhouseCoopers?
And I'll point your attention to page Bates numbered CL 150837, the middle of which contains a resolution recommending that the AHERF board replace PriceWaterhouseCoopers as external auditor for AHERF and its subsidiaries.
A. I'm sorry, would you repeat the question?
Q. Sure. Does that passage I just referenced to you refresh your memory as to any discussions that you took part in regarding the decision to replace PriceWaterhouseCoopers?
A. I don't remember any -- any specific discussions or who said what at the meeting. I do remember that we did decide to replace the auditors, that we were disappointed with the management, we were disappointed with the outcome, the circumstances. We were generally disappointed with, you know, the condition of the -- of the system at that point in time, and so it seemed perhaps prudent to make a change,

if for no other reason to be sure that we were getting a fresh look at it and where we were. So I think that -- I think I can say that with some degree of certainty.
Q. Do you recall a vote being taken at this finance and audit committee meeting regarding the replacement of Coopers -- I'm sorry, of PriceWaterhouseCoopers?
A. I don't remember. I'm sure there was if it's stated there was, but I don't remember.
Q. I take it you don't recall which way you voted?
A. I don't. However, in all honesty I doubt that I would have objected to this, but I don't remember specifically.
Q. Do you recall any discussion by Mr. -- well, let me ask you a different question. Do you know who Joe Dionisio is?
A. I remember the name now that I see it.
Q. Do you recall his role in AHERF?
A. It was in the finance function somewhere.
Q. Do you recall any comments he made at this meeting regarding any pros and cons of replacing --
A. No.
Q. -- PriceWaterhouseCoopers?

A. No.
Q. And reviewing this document doesn't refresh your memory as to any comments he may have had; is that right?
A. No, it really doesn't.
Q. Did you take part in any discussions that led to the termination of either Mr. Abdelhak or Mr. McConnell?
A. No.
Q. Did you see any documents during your service at AHERF regarding the termination of either of those individuals?
A. No.
Q. Were you aware that the fall of 1998 PriceWaterhouseCoopers and AHERF issued a press release stating that the fiscal year 1997 audited financial statements should no longer be relied upon?
A. I remember something to that effect.
Q. Can you explain your recollection to me?
A. Basically what you just said, couldn't rely on the financial statements.
Q. Did you take part in any meetings at which the decision to make that press release was made?
A. No.

Q. Do you recall any --
A. Or I don't recall. I don't recall.
Q. Okay. Do you recall any reasons supporting the decision to make that press release?
A. No.
Q. Now, the exhibit we just spoke about, 2105, lists you as a member of the finance and audit committee. Do you recall when that committee was formed at AHERF?
A. No.
Q. Do you have an understanding as to how you became a member of the finance and audit committee?
A. I believe it was -- I won't say I believe. I was a member of the finance committee for AHERF, and it was my -- it is my understanding that that committee continued on after -- after the bankruptcy filing. So, therefore, I was a member of the prior committee, I continued to be a member of the committee.
Q. Can you tell me when your committee service ended on the finance and audit committee?
A. No, I don't remember.
Q. And at the 8/27/98 meeting, do you recall any comments by Anthony Sanzo regarding his views

COMMONWEALTH OF PENNSYLVANIA) CERTIFICATE
COUNTY OF ALLEGHENY) SS:

I, Heidi H. Willis, RPR, CRR, a Court Reporter and Notary Public in and for the Commonwealth of Pennsylvania, do hereby certify that the witness, RANDALL RUSSELL, Ph.D., was by me first duly sworn to testify to the truth; that the foregoing deposition was taken at the time and place stated herein; and that the said deposition was recorded stenographically by me and then reduced to printing under my direction, and constitutes a true record of the testimony given by said witness.

I further certify that the inspection, reading and signing of said deposition were NOT waived by counsel for the respective parties and by the witness.

I further certify that I am not a relative or employee of any of the parties, or a relative or employee of either counsel, and that I am in no way interested directly or indirectly in this action.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office this 1st day of October, 2003.

____
Notary Public

COMMONWEALTH OF PENNSYLVANIA) E R R A T A
COUNTY OF ALLEGHENY) S H E E T

I, Randall Russell, Ph.D., have read the foregoing pages of my deposition given on Monday, September 29, 2003, and wish to make the following, if any, amendments, additions, deletions or corrections:

Page/Line Should Read Reason for Change

In all other respects, the transcript is true and correct.

____
RANDALL RUSSELL

Subscribed and sworn to before me this ________ day of ______________, 2003.

____
Notary Public
AKF Reference No. HW77452

Sanzo Dep.

In The Matter Of:

OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF ALLEGHENY HEALTH, EDUCTION, etc. v. PRICEWATERHOUSECOOPERS

ANTHONY SANZO
July 2, 2003

LEGALINK MANHATTAN
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SANZO, ANTHONY - Vol. 2

was different than what Mr. Abdelhak had advised?
A. Mr. Abdelhak had apparently --
I was told by Mr. Gumberg who told me that he learned of this directly from Mr. Abdelhak.
Q. Okay. So at some point -- and you don't, I take it, think that you learned that in the conversation with Mr. Gumberg over the Memorial Day weekend. It was prior to that.
A. It was prior to that.
Q. So at some point, Mr. Gumberg advised you that the payment -- the $90 million payment was actually made from assets of AGH and Forbes, and that he had learned that from Mr. Abdelhak.
A. Yes, sir.
Q. What do you recall about that conversation? What were Mr. Gumberg's observations or your own?
A. Mr. Gumberg was livid in expressing this to me, angry in expressing this to me, indicated that he learned it in the context of Mr. Abdelhak asking him for help in getting the other trustees to accept -- he and other trustees to accept this action.

He was -- when I said livid, livid that request would have been made to him, and he told me that he directed Mr. Abdelhak to immediately report this to both the chairman of the AHERF board and the chairman of the AUH West board, who at that time was Frank -- Mr. Cahouet.
My reaction, of course, was a punch in the stomach kind of reaction.
Q. Now, up to the point where you learned that Mr. Abdelhak had utilized assets of AGH and Forbes to repay a bank loan -- something the prior agreements said would not happen without your consent --
Correct?
A. Correct.
Q. -- and that, in fact, something different than Mr. Abdelhak had told you he had done with respect to repayment of that loan, up to that point, what was your opinion, your personal opinion, of Mr. Abdelhak's skills as a manager -- I'm going to ask you three questions -- skills as a manager, number one; number two, dedication to the progress of AHERF; and, number three, loyalty to the AHERF

organization and its constituent parts; so first, skills.
A. I've said on many occasions, and I will say today under oath, that I thought and still think that Sherif Abdelhak was perhaps one of the brightest people I ever worked for. He was skilled, may still be skilled; I don't know.
And he was articulate, he was fast on his feet, he could analyze complex situations faster than anyone else and, in fact, he was a deal-maker, and I think the reason many of us had confidence that the Vanguard deal would get done was because he said it would get done. I mean, he had done deals in the past, several, so there was that level of confidence.
Did you say dedication?
Q. Dedication to the AHERF system and its constituent parts.
A. He was definitely dedicated to all of AHERF. I think what hurt especially Old Alleghenians -- I was not a member. I joined Old Allegheny in 1986, but especially the Old Allegheny alums, medical staff, members of the board, his dedication to the greater AHERF, all of AHERF and all of its constituent parts, hurt those

who believed that they were the fountainhead, or the organization from which they hailed was the fountainhead of the AHERF organization, but he was definitely dedicated.
I mean, even when he was wrong, he made decisions based on what he thought was going to be in the best interest of AHERF.
Notwithstanding all of that, he did have some trouble with ego and humility, and he was perhaps not --
He was perhaps arrogant, and when I say that, I don't mean rude. I mean that I think he understood that he was smarter than the average bear and acted sometimes as if he were.
So I would say that that was -- before this, after this, that was something that any of us, if we were under oath and asked to testify what do we think about Sherif, that's probably not as --
He was -- sometimes I think he let his ego get the better of his managerial decisions.
Q. And just to fill out this question, Mr. Sanzo, what were your observations about his work

ethic and so on? Was he a part-time guy or --
A. No. He may not have been working at the office, but the guy worked all the time. He called me --
I felt that he had a device that knew when I had an out-of-town guest, because I would get a call especially when I wanted to be someplace else. Some portion of our working career that overlapped, we lived within two miles of each other. You might consider that convenient. I did not, but, I mean, he definitely was a hard worker. He probably --
Well, I don't know. He was a hard worker.
Q. And then the last element of this, Mr. Sanzo, is loyalty, by which I intend to convey the question of was this a guy who was making deals for himself or creating financial incentives for himself as opposed to a loyalty to the organization for which he was working, from your observations?
A. I think he was motivated first by his loyalty to the organization, but he was definitely motivated by what his accomplishments may mean financially to him. I don't think he was

superhuman in that way.
Q. Did you ever become aware, either while you were at Allegheny General or afterward, of Sherif Abdelhak diverting or taking any money or property out of the AHERF organization for his personal use or personal gain?
A. No, sir.
Q. You never heard anyone else discuss that either?
A. I think people discussed compensation and other perks that all were apparent to anyone who had access to the full books, but no acquisition of --
I'm taking your question to mean stealing and --
Q. Essentially that.
A. No. I never heard any such acquisitions.
Q. Mr. Sanzo, did you --
When you learned about the potential removal of Sherif Abdelhak, did you have any opinion at that point as to what that might do to the proposed sale of eastern hospitals to Vanguard?
A. Maybe not at the exact time that I heard that, but it was actually something that I not only

thought about, but I discussed. Having never met Charlie Martin, Charles Martin, the CEO of Vanguard, or the team with whom he had been working to do the diligence in Philadelphia, there was some concern that, you know, a new face could possibly change the deal; and I shared the concern. I was --
My concerns were mitigated by my knowledge that David McConnell had been intimately involved in the discussions, and I ultimately I think that's the side we came down on.
Q. Okay. And with whom did you --
You said you had a concern and you shared a concern regarding whether a new face in the Vanguard transaction -- I take it, could delay or jeopardize it. Was that your concern?
A. I was more concerned about a delay than I was killing the deal, so to speak.
Q. And with whom did you have --
With whom did you share that concern?
A. I talked to David McConnell about it. I talked to Nancy Wynstra, or "Wynstra," about it. I may or may not have talked to trustees about it. I don't know.

Q. Do you recàll having those conversations before Mr. Abdelhak was terminated or afterward?
A. Afterwards.
Q. So those conversations are conversations you would have had after Mr. Abdelhak was terminated after you became the president of AHERF and, in effect, after Mr. McConnell and Ms. Wynstra became folks who were reporting to you?
A. That's correct, sir. I would not have presumed to have those conversations otherwise.
Q. Prior to becoming the CEO of AHERF in June of 1998, as I understand your testimony, you had no responsibility for any of the eastern operations of AHERF.
A. That's a correct statement.
Q. Having said that, prior to your becoming the CEO of AHERF, did you have any opinion regarding the quality of the management that was responsible for the operations in the east?
A. I may have had some PIPs. They're not remarkable.
Q. And by "not remarkable," you mean what?
A. If you're asking if I thought they were a bunch of bozos in the east and why don't they put

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of the medical staff.
Q. Okay. Turning the page, there is a FAX cover sheet for this from Ira Gumberg to Anthony Sanzo. Do you see that?
A. I do.
Q. And then attached to that is a two-page letter dated July 7, 1998, addressed to the members of the board of trustees of AHERF and signed jointly by PNC Bank and MBIA Insurance Corporation.
A. Yes, sir.
Q. And the letter shows a CC to, among others, you.
A. Yes, sir.
Q. Do you recognize the handwriting or the printing on this letter?
A. I do not.
Q. Now, the letter is dated July 7 of 1998. Correct?
A. Yes, sir.
Q. And it is signed on behalf of both PNC and MBIA?
A. It is.
Q. Now, it states, Mr. Sanzo, does it not, that based upon your expressed need for system-wide

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financing on an urgent basis, we enclose a proposed term sheet. Subject to the conditions of the term sheet, we would be prepared to lend a maximum of up to $160 million dollars, of which not more than $50 million will be available through August 15, 1998.
A. Yes, sir.
Q. Is second paragraph indicates that the loan would be made jointly and severally to AHERF, AGH, Forbes, Canonsburg, and Allegheny Valley. Do you see that?
A. I do, sir.
Q. Those are the western entities. Correct? Except for AHERF, those are the western hospital entities.
A. Correct.
Q. And it indicates the loan would be fully secured by all assets of the borrowers, which in this letter includes the western hospital entities.
A. Correct.
Q. The next paragraph states, we have heard that the AHERF board has recently expressed strong reservations with respect to making the credit of the west available to support the east.

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The board's current position is inconsistent with its actions in the past and is particularly unfortunate in view of the system-wide need for financing.
Mr. Sanzo, do you recall at or about this time, early July of 1998, a combination of PNC and MBIA were proposing to lend up to a maximum of $160 million, and that a major issue with respect to that effort became the question of whether the assets of the west would be available to secure repayment of the loan?
A. I do recall, yes.
Q. Can you tell me whether at any point the members of the board of trustees of AHERF during that period or the officers of AHERF during that period, which included you, ever agreed to a proposal to allow the assets in the west to be used as collateral for loans that would be used system-wide, meaning west and east?
A. Yes. There was no such agreement.
Q. Was that a consistent position adopted by the board of trustees, that they would not allow that to occur; consistent, I mean, throughout the time frame up to and including the

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bankruptcy filing?
A. I believe so. The reason I reflected, I was trying to remember if there were any board resolutions acting on it formally, or if it was just -- and now that I see what was attached to the front of this, I think this list could have been generated by either PNC or Mr. McCool so that they could make sure that these individuals directly got this letter, so that position was well known, and it was, indeed, the directive under which I operated.
Q. Now, the letter concludes, does it not, we are willing to undertake this emergency financing in the interest of preserving vital assets of our communities. We urge you to carefully consider this proposal in light of the needs of the AHERF organization.
A. It does.
Q. And I think you've already testified, Mr. Sanzo, that the proposal was, indeed, considered by the AHERF boards and AHERF management.
A. I believe this was delivered directly to at least the members identified A through Q on the front sheet.

Q. Okay. But that there never was a departure by any of the AHERF officers or trustees from the position that no assets of the west will be available to secure this line?
A. It was an issue that was discussed, but no departure from that position was taken.
Q. Okay.
- - - -
(Deposition Exhibit No. 1642 marked for identification.)
- - - -
BY MR. McDONOUGH:
Q. Mr. Sanzo, I'm going to show you next what's been marked as Exhibit 1642. It is a letter dated July 11, 1998, from MBIA to the board of AHERF in care of you.
A. Yes.
Q. Now, in reviewing this letter, Mr. Sanzo, do you have any recollection of having received it at or about the date of July 11, 1998?
A. I believe I received it, yes.
Q. And just chronologically, this would have been about a week or so prior to the actual filing of bankruptcy petitions on behalf of some of the AHERF entities.

A. Yes. I think it was about ten or twelve days.
Q. Now, this letter states, dear board member, as president of MBIA Insurance Company, insurer of $300 million of Delaware Valley Obligated Group bonds and $71 million of AGH bonds, I am writing concerning the difficult choices currently facing the board of AHERF. Correct?
A. Correct.
Q. And it goes on to state, we at MBIA have been given to understand that the board is considering bankruptcy filings for one or more entities within the AHERF system. We believe such a filing could have highly deleterious effects on the delivery of health care services and education in Pennsylvania.
Finally, Mr. Anthony Sanzo, your new CEO, has told us that the board has not actively considered the sale of the whole AHERF system as a means of avoiding a bankruptcy filing.
Our advisors indicate that the sale of the entire system would very likely yield a purchase price well in excess of all debt. The need for a bankruptcy filing would be obviated, subject to receipt of interim financing, which

MBIA would be pleased to consider providing, just as we have already provided interim financing proposals which the board has rejected.
Now, I didn't frankly mean to read that much into the record. I apologize but, Mr. Sanzo, here are my questions with you with respect to this.
Do you recall any consideration by the AHERF board of the position taken by MBIA in this letter that a sale of the entire AHERF system could be achieved at a price that would repay in full all debt and, in fact, in excess of all debt?
A. I do recall, again to the best of my ability, that the options of combining the entirety of the AHERF system in any form of reorganization, restructuring, or sale, was rejected, was considered and rejected, rejected again not with -- without debate and without dissension by certain members of the board, and, no, I can't remember who would have dissented at this point in time, but it was largely split between, shouldn't be a surprise, but those members based in western Pennsylvania and those

members who were based in eastern Pennsylvania.
But it was rejected on the basis that there was a fairly strong belief that the entities, including the New Jersey hospital entities and all entities in the west, if freed from their -- from the financial burden of eastern operations, would be able to survive on their own and, therefore, since they were separately obligated debts, they should be treated as separate organizations, and individual decision should be made on behalf of each rather than one on behalf of the whole.
Yes. I have some recollection of those discussions.
Q. And were those discussions and decisions a further reflection of what we've been talking about, a decision in the west that no further value from the west was going to be extended to benefit the east?
A. I think it was a reflection of that position, yes, sir.
Q. Now, Mr. Sanzo, do you recall any analysis within the AHERF organization with respect to whether the statement made here by a major bond insurance company, to the effect that if the

AHERF system were sold, as a whole, that would very likely yield a purchase price well in excess of all debt?
A. No, sir. I recall no such analysis being completed.
Q. So it's not as if within the board or with the board's advisors there was an effort to determine whether this statement was true or not. It was, in the current vernacular, a nonstarter because it would have involved utilizing western assets to potentially benefit eastern operations?
A. There is no analysis done. It was a position that was taken based on our belief that certain entities had the ability to operate on their own merit and should be given that opportunity.

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(Deposition Exhibit No. 1243 previously marked for identification.)

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BY MR. McDONOUGH:
Q. Mr. Sanzo, I show you next a copy of a letter dated July 13, 1998. This is two days after the prior letter we just looked at?
A. Yes, sir.

Q. This is addressed to you as president and CEO of AHERF.
A. Yes, sir.
Q. And signed by an individual from PNC Bank. Correct?
A. Yes, sir.
Q. There is handwriting on this letter. Do you recognize the handwriting?
A. I recognize it, and I believe it to be the handwriting of Connie Cibrone.
Q. Connie Cibrone at that point in time would have been the president of AGH?
A. That's right.
Q. Can you decipher it? I mean, actually it's quite good handwriting, but it says, increase to a hundred. Would that be one hundred thousand or one hundred million?
A. It says a hundred thousand. I'm not going to interpret it. I'll read it for you. It says, increase to a hundred thousand. If attached to --
Q. Do you know what U dot or V dot would refer to?
A. No.
Q. This letter states, following our conversation of yesterday, I can confirm that PNC and MBIA

are willing to consider interim financing for members of the Delaware Valley Obligated Group in an amount up to $33 million, which you indicated would be a sufficient amount of financing to take the eastern region of AHERF through August 7, 1998.
Do you recall, Mr. Sanzo, that at or about July 13, MBIA and PNC made a proposal to lend $33 million to just the eastern region?
A. I recall that --
I don't think it was a firm proposal. I do believe that terms of a proposal were being discussed at that point, yes, sir.
Q. And were those terms set forth in this letter?
A. I would like to read it.
Q. Yeah, please do.

- - - -

(The witness reviewed the document.)

- - - -

THE WITNESS: Okay, sir.
BY MR. McDONOUGH:
Q. Okay. Now, if only I can remember the question, but let me try to approach it this way, Mr. Sanzo.
Was this a proposal or an outline of

a proposal to lend $33 million to only the Delaware Valley obligors as opposed to the western ones?
A. It seems to be an outline of the proposal that they were willing to consider.
Q. Okay. Along the lines that I discussed?
MR. COGAN: Objection.
A. I don't understand.
BY MR. McDONOUGH:
Q. Let me withdraw the question.
What I'm trying to establish is this letter doesn't say that the cash or the assets in the west would need to be provided to secure this loan. Correct?
A. Well --
MR. COGAN: Objection.
THE WITNESS: It does in a way, sir. It says that AHERF and its affiliates would be required to subordinate any debt owing to them in favor of this debt to PNC and MBIA.
BY MR. McDONOUGH:
Q. Okay.
A. So in some way I think it does obligate at least whatever was outstanding then and owed.
Q. I don't disagree with that, Mr. Sanzo. What I

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Penn?

MR. COGAN: Objection.

THE WITNESS: Had I noticed that? Yes. I did notice that.

MR. McDONOUGH: That's all the questions I have. Thank you, Mr. Sanzo.

MR. COGAN: Why don't we go off the record.

THE VIDEOGRAPHER: We're now going off the record. The time on the screen is 1:34.

- - - -

(The proceedings were recessed at 1:34 p.m.)

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COMMONWEALTH OF PENNSYLVANIA) CERTIFICATE
COUNTY OF ALLEGHENY) SS:

I, G. Donavich, RPR, CRR, a Court Reporter and Notary Public in and for the Commonwealth of Pennsylvania, do hereby certify that the witness, ANTHONY M. SANZO, was by me first duly sworn to testify to the truth, the whole truth, and nothing but the truth; that the foregoing deposition was taken at the time and place stated herein; and that the said deposition was recorded stenographically by me and then reduced to printing under my direction, and constitutes a true record of the testimony given by said witness.

I further certify that I am not a relative or employee of any of the parties, or a relative or employee of either counsel, and that I am in no way interested directly or indirectly in this action.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office this 5th day of July, 2003.

____
Notary Public

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COMMONWEALTH OF PENNSYLVANIA) E R R A T A
COUNTY OF ALLEGHENY) S H E E T

I, ANTHONY M. SANZO, have read the foregoing pages of my deposition given on Wednesday, July 2, 2003, and wish to make the following, if any, amendments, additions, deletions or corrections:

Page/Line Should Read Reason for Change

In all other respects, the transcript is true and correct.

____
ANTHONY M. SANZO

Subscribed and sworn to before me this ________ day of ______________, 2003.

____
Notary Public
AKF Reference No. 76211

IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF PENNSYLVANIA

- - - -

THE OFFICIAL COMMITTEE OF)
UNSECURED CREDITORS OF)
ALLEGHENY HEALTH, EDUCATION &)
RESEARCH FOUNDATION,)
)
Plaintiff,)
)
-vs-) Civil Action
) No. 00-684
PRICEWATERHOUSECOOPERS, L.L.P.)
)
Defendant.)

- - - -

VIDEO TAPE
DEPOSITION OF: ROBIN R. SCHAFFER
VOLUME I

- - - -

DATE: June 4, 2002
Tuesday, 9:03 a.m.

LOCATION: MANION McDONOUGH & LUCAS
14th Floor, USX Tower
Pittsburgh, PA 15219
412-232-0200

TAKEN BY: Defendant

REPORTED BY: Claire Gross, CRR, RDR
Notary Public
AKF Reference No. Cg70512

booking bad debt at a budgeted level because with the increased agings and some of the other issues with the bad debt methodologies, he was concerned about booking at budgeted levels.
Q. Who decided to book bad debt expense at budgeted levels?
A. I can't say. I know why it happened, but I don't know who made the call. My guess would be that Chuck Morrison did, but that's simply a guess on my part.
I know the big concern was that bad debt expense was all over the place, meaning it was not a consistent number, and it just kept getting higher and higher.
I think people in operations who Chuck Morrison had to talk with and deal with had concerns about whether bad debt expense was right and why it was so high and what was going on.
Because of that they tried to smooth the bad debt expense out and book it at budgeted levels until they could get their arms around the issue.
I think it came from Chuck Morrison,

the directive, based on his dealings with operations, but I can't say that 100 percent for sure.
Q. What was Mr. Morrison's role at AHERF?
A. He was the CFO, the chief financial officer, of the eastern region hospitals, so he actually was located in Philadelphia. He had a very large staff out there, a big accounting staff just like we had in Pittsburgh, and his people were supposed to be more operational.
Like he had Kathy Stephans, for example, reported directly to him, and she was supposed to be like the direct contact with Hahnemann Hospital dealing with their operations people and trying to understand what was going on. Randy Jacobson was another one that reported to Chuck. Those were his top two people.
Peter Keyes prepared the budgets for Chuck Morrison. So he was out there in Philadelphia with his own accounting staff, and he was the chief financial officer of all the hospitals out there.
Q. Did you have an understanding as to why there

was an accounting group in Pittsburgh and a separate accounting group out in Philadelphia?
A. Well, I know initially the logic was let's consolidate all the accounting and save money, and we did actually save money from doing that. We closed down a lot of the detailed accounting work that was being done out in Philadelphia.
The reason that they still needed to maintain a presence out there is because that's where the hospitals were physically located, and they needed people that could go to the hospitals and deal with the hospitals directly on operational issues and finance issues so that there was a presence out there.
Q. Now, you said that there were concerns that bad debt expense was all over the place?
A. Yes.
Q. I was wondering what you meant by that.
A. Instead of it being consistent from month to month or in line with budget, it was normally going up higher and higher each month. It wasn't a consistent number, and it wasn't in

line with budget. It was always well over the budgeted levels.
Q. You mentioned it was your understanding that people in operations had concerns?
A. Yes.
Q. Who are these people in operations?
A. Well, I know one of the people who Chuck Morrison reported to -- he was an older gentleman, and as soon as you asked me that his name just went out of my head.
Q. Dr. Kaye?
A. Dr. Kaye. That was one of the main people that had concerns. That's the name I heard that was questioning it.
Q. Do you know when those concerns over bad debt expense began?
A. From the perspective of the operations people, probably in fiscal '97 when they really started seeing it. From Coopers perspective it would be '96 because they had concerns about the way we recorded bad debt and whether or not our bad debt methodologies were adequate as far as like calculating our reserves that we needed.
Q. When you say that Coopers had concerns, are

you talking about during the '96 audit?
A. During the audit, yes.
Q. And who from Coopers did you speak with about those issues?
A. Actually with those issues I dealt some with Amy directly, and I think that Brian Christian was actually doing the '96 audit, if I recall correctly. But one of the things they did as an example is they took our agings for our hospitals and dumped them into the AGH model, the Allegheny General Hospital model, just to see how far off we were if we used their methodology which Coopers was very comfortable with.
Q. When you say our hospitals, you're talking about DVOG hospitals?
A. DVOG, yes.
Q. And AGH is Allegheny General Hospital?
A. Yes.
Q. They had a different method of calculating bad debt allowance for the DVOG hospitals?
A. Yes.
Q. Is there anyone you can remember from Coopers talking to about bad debt issues in the '96 audit other than Ms. Frazier and

Mr. Christian?
A. Me specifically talking to anyone else, I don't recall.
Q. Now, you said that they had concerns?
A. Concerns, yes.
Q. Can you tell us what you can recall about what they told you about what their concerns were?
A. What I recall is just when they -- one, we had different methodologies and, two, the percentages we were using, depending on how old the receivables were, were different among the hospitals and not always probably as high as they should have been.
What I recall specifically is them looking at our bad debt the way we recorded bad debt, not being very comfortable with the percentages themselves because of the aging of the receivables and just saying that, you know, if we used the DVOG numbers in the AGH model, what would we need as a reserve at that point because I felt they were more comfortable with the AGH methodology and the percentages that were being used.
So they were more -- I was providing

them agings, they were trying to run some of their own calculations trying to figure out what these guys really mean, meaning the DVOG hospitals on their books as far as bad debt versus what they have.
Q. Did you ever see any calculations that Coopers may have run on their own?
A. The only one I recall seeing, I believe Brian -- I believe it was Brian Christian took my agings and tried to put them into the AGH model. I remember there was just some things they asked me to take a peek at them just to say did we do this correctly.
I just remember briefly looking at them, maybe saying, well, no, this payor really should be this one or that's that. Just some general things that I added. But that was the extent of my looking at what they did. They usually presented that stuff higher up than me after they came up with their answers.
Q. Do you know anything about what the result was of any calculations that Coopers may have run like that?
A. I vaguely recall that we did book additional

reserves in June. I don't know how much, June of '96. I don't know how much or where they came from exactly, but I do remember that I think Bill Beuttner proposed that we actually book something to try to help solve the problem.
Q. Do you recall that there was a $17 and a half million amount of additional reserves that were booked?
A. That's the number. Now that you say that number I recall it. I can actually see it on a memo that Dan had written, yes.
Q. Was it your understanding that the idea for doing this came from Coopers?
A. Yes.
Q. Who did you get that understanding from?
A. That the idea came from Coopers, that would have been Dan.
Q. How frequently generally while you were at AHERF did you interact with Mr. Cancelmi?
A. Very frequently.
Q. Daily?
A. Daily.
Q. Hourly?
A. No. He was very busy. I would say that I at

been in fiscal '96 that they actually converted to Invision. Then MCP and EPPI came on to Invision later, and then Hahnemann would have been the last one to be converted.
Q. Do you remember when MCP and EPPI switched to Invision system?
A. I can't recall. I don't remember if it was in fiscal '97. I can't remember exactly when they came on board. I know they were after Elkins, Bucks and St. Christopher's, but I don't remember the exact time frame.
Q. Do you remember at all when Hahnemann came onto the Invision system?
A. Precisely, no.
Q. Why were the hospitals being switched over to the Invision system?
A. I think it was for primarily because they thought it was a better system to build a receivables and collect the receivables from. The decision to use Invision, I believe, came from the Patient Financial Services Group, the Greg Snow group.
Q. Now, what type of accounting software programs did you use in your job?
A. I used Lotus a lot to put, organize that and

do spread sheets and stuff. We were on the Dun & Bradstreet general ledger system. That's the two basic things we used.
Q. Was there some type of interface from the patient accounting system to your general ledger system?
A. Yes.
Q. How did that work?
A. There was basically what they called a conversion table that was built. I was responsible for building it initially and maintaining it.

You basically took some key feeds from the patient accounting system, linked them to some key feeds in the general ledger account like account cost center.

Every month you would accumulate the data, inpatient accounting, patient accounting system, run it through this table, and it would be interfaced into our general ledger.
Q. Did you have direct access to the patient accounting program?
A. The only access I had, I could inquire on accounts. I could go in and look up a

patient and see the detail of what was charged to his account. I couldn't edit anything, change anything. I didn't have that type of access. It was inquiry only.
Q. But you were able to read data in the patient accounting system from your own desk?
A. Yes.
Q. Is that a function that only you had, or did others in the accounting department also have that ability?
A. I was the only one that had that. I think later on I may have given Brian Savchak or one of the other staff accountants security, but I was primarily the one that could do that.
Q. Now, I think we had gone on to this topic because you were telling me that the different DVOG hospitals actually had different bad debt allowance methodologies; is that correct?
A. Yes.
Q. What were the differences that you can recall?
A. The one that was the most unique would have been MCP and EPPI. They basically only

reserved patient balances. What I mean is you can have a person that comes into the hospital and has insurance coverage, but a portion of their balance may be covered, they have to pay it themselves.

In the bad debt methodology for MCP and EPPI all they reserved for was the patient balances on all the financial classes meaning your Medicare, Blue Cross, your HMOs, et cetera.

Whereas the normal is to reserve on the entire account balance regardless of whether or not it's insurance or patient. The biggest difference between all five of them were just the percentages that were used as far as if an account was zero to 30 days old, how much reserve was on that versus if it was over a year old.

All the percentages were very different. The other difference is the way we would book bad debt, meaning for Elkins, Bucks, St. Chris and MCP, EPPI.

We would do what we call the income statement method, which was taking a historical percentage of bad debt in relation

to net revenue and booking bad debt that way every month, and then on a quarterly basis or even monthly basis looking at a balance sheet method which is where you take the aging of the receivables and reserve based on A/R balances and seeing whether or not we were over or under reserve using this income statement method. Hahnemann always used a balance sheet method. They booked based on the receivable balance.
Q. If I understood what you just testified to, the balance sheet method involves dividing the patient accounts into different payor categories; right?
A. First, yes.
Q. And then you separate the accounts out into different aging buckets; is that correct?
A. Correct.
Q. And then for each bucket for each payor category you apply a loss percentage?
A. That's correct. A bad debt reserve or writeoff percentage, yes.
Q. And that's how you would determine the proportion of accounts in that bucket that should be in the bad debt allowance?

A. Correct.
Q. And at Hahnemann you applied the balance sheet method every month?
A. Every month, yes.
Q. So who would actually perform that calculation?
A. That would be me and my staff that would do that.
Q. Would you do that or would Mr. Savchak or Ms. Gall and Ms. Forte?
A. Normally the staff would. Early on when we were acquiring the DVOG hospitals I did a lot of the detailed work myself. I actually did most of it myself for the first couple of months before it was brought back to Pittsburgh. But normally the staff accountants would do that.
Q. Okay. So when you got hired in the spring of '95 AHERF was in the middle of consolidating accounting functioning back to Pittsburgh?
A. That's correct.
Q. Is that actually why you were hired? That was all part of that, of that effort of consolidation?
A. Yes.

Q. Would you review the monthly calculation at Hahnemann using the balance sheet method?
A. Yes. If I didn't prepare it, I would review it, yes.
Q. Now, at the four other DVOG hospitals I think you indicated on a monthly basis the bad debt expense was determined using the income statement method?
A. Correct.
Q. And that would be done using a percentage of gross revenue; is that right?
A. Net revenue. Normally it was net revenue.
Q. What percentage was used?
A. That I don't recall. It varied for each of the different hospitals. We would look back at where their bad debt expense was the prior year in relation to net income and that's how the percentages were developed.
Q. At the end of each year was the balance sheet method applied to the four DVOG hospitals that on a monthly basis used the income statement method?
A. Yes.
Q. So even if during a given year they were either overbooking or underbooking expense,

that problem would get fixed at year-end?
A. Yes, for the audit, yes.
Q. And did you prepare the calculations for those four hospitals using the balance sheet method at year-end?
A. Either myself or the staff, one or the other.
Q. And if the staff prepared it, would you have a look at it?
A. Yes.
Q. You would see that it was right?
A. Yes.
Q. So those four hospitals would be Elkins Park, Bucks, St. Christopher's and MCP?
A. Yes.
Q. Now, the patient accounting information from the PFSG was gross revenue; is that right?
A. Primarily. There were different buckets of receivables. I'll explain that. There were people that were in-house that were still physically in the hospital. Those were gross receivables or gross revenue.
There were people that had been discharged but not final billed. Those were also gross receivables. Some of the final billed accounts would have been net

receivables.
The patient accounting systems had what they called a PRM. It was a Payment Responsibility Master or something like that, that based on the actual contracts would go in at time of bill and calculate the net what they expected to collect, the net research. That was on the inpatient side.
On the outpatient side there was a mix, again some accounts had been contractualized and some were at gross.
Q. So PRM is P-R-M?
A. P-R-M, yes.
Q. When you say contractualized, that means taking gross revenue and getting down to net revenue?
A. Correct.
Q. What term did you use for the difference from gross revenue to net revenue?
A. Different things. Charge differential was maybe something that people would use. Contractual reserve. Those are the two main things.
Q. You used those two terms to mean that amount between gross revenue and net revenue?

A. Yes.
Q. So the patient accounting system carried the in-house accounts and the discharge not final billed accounts at gross; is that right?
A. Yes.
Q. Who then would make sure that those accounts receivable would be brought down to a net level?
A. That would be my department in accounting.
Q. How did you do that?
A. We -- primarily the easiest way to explain it, we looked at, for example, Medicare. Medicare pays on a per case basis based on a DRG. We would look at the number of cases in the receivables at month end, and we would calculate out based on these per case rates that our reimbursement department, Joe Scharf, would provide to us.
We would calculate out I have 10 cases, I'm going to be paid $10,000, I'm going to be reimbursed 100,000, my gross charges are 200, I need to contractualize 100,000.
For Blue Cross they were paid per day. Again, we would get per day rates. We

would either get them from reimbursement, the reimbursement department, or we would calculate based on historical payment data what we were going to be paid, and we would price everything out that way.
Q. Now, I think you indicated that for the final billed accounts, at least on the inpatient side, most of the accounts were already contractualized within the patient accounting system?
A. That's correct.
Q. Was that done at the time of billing?
A. Yes.
Q. Were there certain categories of inpatient final billed accounts that were not contractualized within the patient accounting system?
A. Yes.
Q. What categories were those?
A. Normally on the inpatient side it wasn't necessarily a particular category. It was a result of problems with the PRM that the system basically just wasn't working appropriately.
The outpatient side is different, and

I'll speak to that in a moment. But the inpatient side, normally if an account went to a final billed status on the inpatient side, the rates should have been loaded into this PRM, and the contractual should have been taken. But there were problems and issues with the data that was in the PRM.
Q. Did you have an understanding as to why there were problems with the PRM?
A. I think one issue was with the conversion. Some of the stuff may not have been set up correctly in Invision. That was one issue.
Another issue was when a patient's financial class would change, meaning if he came in Medicare and later we found out he really should have been Blue Cross, you change the financial class. A lot of times the PRM was reversing the contractual and not putting a new contractual back on the account.
Q. So the first problem with the PRM that you mentioned was conversion. That's conversion from PATCOM to Invision?
A. Correct.
Q. Second problem you mentioned with the PRM is

that didn't happen?
A. Greg Snow.
Q. Now, we've moved on, I guess, to the outpatient accounts. Were final billed outpatient accounts generally carried in the patient accounting system at gross or at net?
A. Generally at gross. They tried to load -- patient accounting tried to load some of the contracts into the PRM. But it's more complicated, I think, on the outpatient side. I don't know what the split was. It might have been like 60-40, 60 percent gross, 40 percent net.
Our problem in accounting was always trying to determine what we needed to reserve and what we didn't based on what was at gross. That was a frustration that we had because they changed it constantly in patient accounting.
Q. For outpatient final billed accounts then was it your responsibility to reduce those from gross to net?
A. If they were at gross, yes.
Q. And did you then calculate the bad debt allowance as a proportion of net accounts

receivable?
A. Yes. After we factored in the contractuals that we manually would reserve in accounting, they would then take a net receivable number and calculate bad debt expense on that number.
Q. Now, a few minutes ago you were telling me about the bad debt allowance methodology at MCP, EPPI. That was, I think you testified, a methodology that was reserved only for self-pay accounts and for patient portions of other accounts?
A. Correct.
Q. Do you recall any discussions that you may have had about the MCP, EPPI bad debt methodology with Coopers & Lybrand during the 1996 audit?
A. I know specifically -- when I say that they generally had concerns about our methodology, the MCP, EPPI one was probably the biggest concern because that one -- because of how it was done, probably there was the most exposure was on that particular group.
Q. The most exposure meaning the greatest potential that it was underreserved?

A. Yes.
Q. Before you spoke to Coopers & Lybrand about the MCP, EPPI bad debt methodology, had you had your own concerns?
A. In '96, yes. I'll have to say in '95, when I first came to Allegheny to start doing revenue I didn't have a lot of experience. I had to learn pretty quickly.
In '96 I probably wasn't as concerned as Coopers until Coopers brought it up. My concern was, of course, after they started bringing it up that we were going to have an audit adjustment.
But I knew just from looking at the methodologies that there were problems, but I was really concerned when Coopers had the same issues.
Q. When you referred to an audit adjustment, can you just explain what that is?
A. Yes. Normally after Coopers would review our financial statement, if they determined that anything wasn't properly or adequately recorded on our general ledger, they would propose an adjustment to our financial statements, sort of an after-the-fact

adjustment because the financial statements unaudited would have been presented to various people in the organization.
Q. Was an audit adjustment something you generally tried to avoid?
A. Generally.
Q. Why?
A. It's better from our perspective. In accounting we are doing a better job if our financial statements are accurate when Coopers comes in.
We always try to make them as clean as we could before Coopers came in. So generally we didn't like audit adjustments because it was a reflection maybe we weren't doing our job.
Q. A reflection meaning that more senior people at AHERF might believe that the accounting group wasn't doing its job?
A. Yes.
Q. Do you remember who from Coopers & Lybrand you spoke to during the 1996 audit about the MCP, EPPI bad debt methodology?
A. Again, I think the two people I was most involved with were Amy Frazier and Brian